



## 2019 FINANCE POLICY STATEMENT

1	<b>Goals and Principles</b>	41	
2	The American economy is dynamic,	42	they are residents or local
3	transforming from agrarian to industrial,	43	businesses.
4	from industrial to services-driven, and	44	• Tax policy should recognize the
5	evolving now to Internet-based	45	different economic, demographic,
6	businesses harnessing the power of the	46	and service demands among
7	Digital Age. The growth in online-	47	localities, and should foster local
8	enabled platforms that connect	48	control to develop tax policies best
9	customers with companies and private	49	suited for their communities;
10	individuals offering services and	50	• Tax policy should recognize and be
11	property for sale or lease is	51	responsive to the competitive
12	fundamentally restructuring the business	52	nature of the free market, should
13	landscape. As the Internet takes a	53	refrain from enacting policies that
14	greater hold in American business and as	54	are too generous for one group, and
15	Virginia weans itself from the economic	55	should not place undue burdens on
16	stimulus of federal defense spending,	56	particular groups, including
17	local governments must reexamine the	57	business and industry;
18	services provided to citizens and the	58	• State-imposed changes on local tax
19	means to pay for them. State laws, local	59	structures should be simple to
20	ordinances, tax structures, licenses and	60	administer and, at a minimum, be
21	regulations will have to be re-evaluated	61	revenue neutral; and
22	and re-tooled without sacrificing the	62	• State-mandated tax relief programs
23	overall quality of basic government	63	should not use local revenues.
24	services, including education, public	64	State-adopted tax relief programs
25	health, and public safety.	65	should rely only on state revenues.
26		66	• The State should not create real
27	To that end, these principles are	67	estate tax relief programs unless it
28	essential:	68	is willing to pay for the cost of the
29	• Local revenue sources should be	69	programs.
30	balanced and diversified over three	70	• Local tax dollars should not be
31	broad bases – assets (property),	71	claimed by the state to cover the
32	consumption (sales), and income;	72	Commonwealth’s revenue needs.
33	• The local tax system should be	73	This includes, but is not limited to,
34	logical and professionally	74	local fines and forfeitures and
35	administered. Taxpayers should be	75	revenues tied to the
36	treated fairly, and compliance costs	76	Communications Sales and Use
37	should be minimized;	77	Tax.
38	• The burden of taxation, as well as	78	• Any legislation with local fiscal
39	the benefits of services, should be	79	impact should be introduced no
40	shared and enjoyed by all whether	80	later than the first week of a
			General Assembly session. Such

1 legislation should be pre-filed prior  
2 to the convening of a regular  
3 legislative session.  
4 • Local government representatives  
5 should be included on any “blue  
6 ribbon” commission or other body  
7 established by the state that has as  
8 its purpose changes to state and  
9 local revenue authority or  
10 governance.

### 12 **Fiscal Challenges Confronting Local** 13 **Governments**

- 14 • The existing local tax structure is  
15 overly dependent upon general  
16 property taxes, specifically real  
17 estate taxes.
- 18 • Unfunded and inadequately funded  
19 state mandates and commitments  
20 strain local government budgets  
21 and place additional pressures on  
22 the real estate tax. State-initiated  
23 services and programs should be  
24 supported by state funds, not rely  
25 on local funds to supplant state  
26 dollars. Line of Duty benefits for  
27 First Responders is one such  
28 example.
- 29 • Public demands for public services  
30 continue to increase. These  
31 services include education, mental  
32 health, other human services  
33 programs, juvenile programs,  
34 environmental initiatives,  
35 economic development, recreation,  
36 and public safety. These services  
37 have both operating and capital  
38 costs and must be funded.
- 39 • Local revenue collections and  
40 service demands are also  
41 influenced by variables outside the  
42 control of councils and boards of  
43 supervisors. These include  
44 changes in federal tax, budget, and  
45 fiscal policies; long-term economic

46 trends; the aging of our citizens;  
47 and global events.

### 49 **Strengthening the Local Tax Base**

50 Depending on the particulars of any  
51 given proposal, possible options to  
52 broaden local tax bases include reserving  
53 a portion of the state income tax for  
54 locally-delivered programs, authorizing  
55 a local option income tax for both  
56 general and special purposes, increasing  
57 the local option sales tax rate, reducing  
58 the number of sales tax exemptions,  
59 expanding the sales tax base, and  
60 reducing the number of exemptions from  
61 the business license tax.

62  
63 The state can also take actions to prevent  
64 the further erosion of local revenues **by**  
65 **not** restricting local tax authority,  
66 imposing new spending requirements or  
67 expanding existing ones on services  
68 delivered by local governments, shifting  
69 state funding responsibilities onto local  
70 governments, expanding retirement and  
71 other benefits, and placing  
72 administrative burdens on local  
73 governments for state or joint programs.

### 74 **Specific Tax Issues**

75 VML opposes the repeal or restriction of  
76 BPOL, machinery and  
77 tools, or excise taxes unless, at a  
78 minimum, suitable revenue-neutral  
79 replacement sources are provided.

80  
81  
82 The state and federal government should  
83 make payments-in-lieu-of-taxes for tax-  
84 exempt properties in amounts equal to  
85 the cost of the local services provided as  
86 well as related infrastructure  
87 improvements.

88  
89 Counties should be granted taxing  
90 powers equal to those granted cities and  
91 towns, without decreasing, limiting or

1 changing town taxing authority. County  
2 excise taxes must not be levied on town  
3 residents without the explicit approval  
4 by a town’s governing body.  
5  
6 VML supports the constitutional  
7 requirement for fair market valuation of  
8 property. State-imposed changes to the  
9 real estate tax must be “local option.”  
10 The state should not impose changes to  
11 processes governing assessments and  
12 appeals for real estate taxes that further  
13 degrade this revenue source.  
14  
15 VML supports current state statutory  
16 requirements governing the setting of  
17 real estate tax rates and the integration of  
18 this process with the budget  
19 development process. Changes to these  
20 processes cannot be addressed separately  
21 without placing undue hardship and  
22 increased costs on local taxpayers. Any  
23 future state legislative change should be  
24 simple to administer and not contradict,  
25 impede or hinder the others.  
26  
27 The Virginia Communication Sales and  
28 Use Tax was enacted to establish a  
29 statewide tax rate and to pre-empt local  
30 taxes on communication sales and  
31 services. As such, the revenues from  
32 this tax must be distributed exclusively  
33 to eligible local governments. VML  
34 supports setting the tax rate on par with  
35 the state sales tax rate and broadening  
36 the coverage of the tax to include audio  
37 and video streaming services and  
38 prepaid calling services.  
39  
40 VML supports state legislation to make  
41 clear that transient occupancy taxes and  
42 sales taxes are applied on the cost of the  
43 room paid by the consumer, regardless  
44 of the means (such as on-line travel  
45 companies) used to reserve a room.  
46

47 **Specific Budget Issues**  
48 In 1979, Virginia made sweeping  
49 changes in local governmental boundary  
50 change and transition issues, including a  
51 moratorium on city annexations that  
52 remains in place. In recognition of the  
53 lost revenue growth for cities, the  
54 General Assembly approved some  
55 changes in state funding commitments  
56 for selective programs and created a  
57 program of state assistance to local  
58 police departments (HB 599). Almost 70  
59 percent of Virginians now live in  
60 communities served by police  
61 departments. The state has increasingly  
62 de-emphasized its statutory commitment  
63 to the “HB 599” program but has never  
64 compromised on the annexation  
65 moratorium. VML calls on the state to  
66 honor its commitment to public safety by  
67 funding the program in amounts  
68 intended in the enabling legislation.  
69  
70 The state must be a reliable funding  
71 partner in accordance with the Virginia  
72 Constitution and state statutes. The  
73 Standards of Quality should recognize  
74 the resources, including positions,  
75 required for a high-quality public  
76 education system. The SOQ should  
77 reflect prevailing practices across the  
78 state, and the actual costs to educate  
79 Virginia’s children. This includes the  
80 cost to educate at-risk students, students  
81 in jeopardy of failing the state’s  
82 Standards of Learning tests, students  
83 with special needs, and school  
84 construction/renovation/maintenance.  
85  
86 The state should fully recognize and  
87 fund the costs of re-benchmarking of the  
88 various educational programs, including  
89 the Standards of Quality, incentive,  
90 categorical, and school facilities  
91 programs as well as support services.  
92 Changing the process of re-

1 benchmarking to artificially lower  
2 recognized costs like inflation does not  
3 change what it actually costs to provide  
4 education. Instead, it simply transfers  
5 additional costs to local governments  
6 and the real estate tax base.  
7  
8 The Commonwealth should:  
9 • Study the Standards of  
10 Accreditation and Standards of Learning  
11 to determine which standards impose  
12 costs on local governments that are not  
13 recognized in state funding formulas. In  
14 particular, changes adopted since 2009  
15 to SOAs and SOLs should be examined,  
16 as state funding on a per-pupil basis and  
17 accounting for inflation and enrollment  
18 growth remains below 2009 appropriated  
19 levels.  
20 • Re-examine those Standards of  
21 Quality that the Board of Education has  
22 recommended, but that the General  
23 Assembly has not funded. These  
24 standards reflect prevailing practices  
25 necessary to improve children’s  
26 academic performance. Student  
27 academic performance is required for  
28 schools to meet the accountability  
29 standards under the SOL and SOA. If  
30 funding is not available to pay for  
31 prevailing practices, the accountability  
32 standards should be adjusted so that  
33 local governments are not in the position  
34 of having to bear the entire burden of  
35 meeting these unfunded mandates.  
36 • Conduct a study that examines  
37 how other states fund education and  
38 whether the Commonwealth should use  
39 a funding strategy that establishes a  
40 more realistic base foundation amount  
41 per pupil – plus add-on funding to reflect  
42 higher costs for educating at-risk,  
43 disabled, ESL, and gifted students, etc.  
44 as well as funding for capital costs.  
45

46 The state should provide sufficient  
47 funding for highway construction and  
48 maintenance, public transportation  
49 infrastructure and maintenance, ports,  
50 airports, and freight and passenger rail to  
51 promote economic development and  
52 public safety. If the General Assembly  
53 chooses a funding approach that  
54 emphasizes regional efforts, then such  
55 opportunities should be made available  
56 across the Commonwealth.  
57  
58 The state should continue to base its  
59 funding of retirement plans based on the  
60 contribution rates certified by the  
61 Virginia Retirement System.  
62  
63 VML supports transparency in budgeting  
64 at both the state and local level. To that  
65 effect, the state should not disguise its  
66 budget reductions by using unidentified  
67 or non-specific reductions for aid to  
68 localities.  
69  
70 As a matter of fiscal reform, the state  
71 should develop financial priorities that  
72 account for both spending and revenue  
73 actions. The debate on such priorities  
74 should be public and should be  
75 transparent to the public in the  
76 Governor’s Budget Bill and the General  
77 Assembly’s Appropriation Act. For  
78 example, should education funding be  
79 afforded less priority than certain tax  
80 preferences?  
81  
82 **Governmental Accounting Standards**  
83 **Board (GASB)**  
84 The Governmental Accounting  
85 Standards Board (GASB) has put in  
86 place standards regarding the reporting  
87 of unfunded liabilities of cost-sharing  
88 plans. A cost-sharing plan is one in  
89 which participating government  
90 employers pool their assets and their  
91 obligations for a defined benefit pension,

1 such as Virginia’s teacher retirement  
2 plan. While the costs are shared, the  
3 state sets the rules regarding what  
4 benefits are required and what the state  
5 contribution will be.  
6 GASB requires that the unfunded  
7 liability be apportioned among the  
8 participating employers that pay the  
9 retirement contributions to the pension  
10 plan. Teachers are employees of the  
11 school boards, which send retirement  
12 contributions to VRS. Because of this  
13 the unfunded liability falls solely on the  
14 school boards, even though the  
15 retirement contributions are funded, in  
16 part, by the state and the school board.  
17 This means that the liability will be  
18 shown on the city, county or town  
19 financial statement. The intent of GASB  
20 rules is to encourage transparency in  
21 pinpointing liabilities and the current  
22 method of assigning those teacher  
23 pension liabilities only to school  
24 divisions contravenes the goal of  
25 transparency.

26  
27 Because there was not a process for  
28 apportioning the liabilities for these cost  
29 sharing plans, they previously had not  
30 been reported at the local level.

31  
32 The unfunded liability should be shared  
33 by the state and localities based on the  
34 state’s Standards of Quality and local  
35 composite index and reflected as such in  
36 reporting.

37  
38 VML supports state policy changes that  
39 would provide for the Virginia  
40 Department of Education to pay the  
41 Commonwealth’s share of retirement  
42 costs directly to the Virginia Retirement  
43 System to facilitate the sharing of these  
44 liabilities.

45  
46 **Government Reform**

47 VML supports a comprehensive review  
48 of the services provided by state and  
49 local governments. The purpose of the  
50 review is to ascertain which services are  
51 truly essential to support a productive  
52 economy and healthy society; determine  
53 the performance level of public services  
54 now in place; evaluate the policies and  
55 practices used by the state to assign  
56 responsibility and accountability  
57 between the state and local governments  
58 for providing public services; and  
59 determine the most effective, efficient  
60 and equitable ways to fund essential  
61 public services. Such a review must  
62 start with a dialog including state and  
63 local officials, business interests,  
64 academia, and other interested parties.

65  
66 **Tax and Spending Reform**

67 Any state initiative aimed at tax reform  
68 should first include a focus on state tax  
69 reform and the financing of state  
70 services including revenue sources. If  
71 the state paid an appropriate share of its  
72 obligations for locally-administered state  
73 mandated or priority services, the  
74 reliance on local taxes would be  
75 reduced. Local officials should be  
76 included in any discussion that focuses  
77 on local taxing authority.